

SEBI'S ENFORCEMENT POWERS AND THEIR IMPACT ON CORPORATE ETHICS AND COMPLIANCE

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Abstract : The Securities and Exchange Board of India plays an important role in maintaining corporate discipline in India through its strong enforcement mechanism. This study focused on the nature, scope, and effectiveness of SEBI's enforcement power in promoting SEBI among companies. SEBI is authorized to check the fraudulent activities, impose penalties, and restrict the market access, and it takes action against the members, individuals, and companies if they violate the securities laws. This paper critically examined how SEBI's regulatory actions influence the behavior of companies and encourage their legal standards, transparency, and ethical business practices. It also evaluates the landmark judgments and regulatory interventions that have strengthened the corporate governance system in India. The paper employs both doctrinal and analytical methods to better understand SEBI's enforcement framework and address the gap between law and ethical corporate conduct. Recently SEBI grow more with the its latest regulation in many aspects like BOD, ESG, investor protection and RPT.

Keywords: SEBI, Corporate Governance, Transparency, Corporate ethics, Audit committee.

1. INTRODUCTION

The Securities and exchange Board of India (SEBI) [1] established as a non-statutory body on 12 April 1988 through the recommendation of Government of India. Then in the year 1992 it becomes the statutory body. This law represented a significant change in the Indian stock market. Before the SEBI, things were different, but now the SEBI can make rules, stop wrong practices, and have the authority to change anything. Section 11 of the SEBI Act plays an important role; it says that SEBI can do or perform any step when it feels necessary to protect the rights of investors, and it also ensures the performance of market growth in an organized and fair manner. SEBI helps to deals with the all issues related to the capital market. [2]

In corporate governance it is the relationship between corporate manager, directors, members and providers of equity people and institution who, saves their money and invest money to earn a return. It also ensures that the Board of director is responsible for the pursue of the corporate objectives and also their law and regulation.

The development of corporate form of organization marks the turning point for the rapid industrialisation and economic growth. This type of organisation evolved through the several factors such as limited liability, easy transferability of shares, separate legal entity. This occurs to development of the Security market where ownership interest are initially sold and later traded in Secondary market. Hence Security market is essential and faster industrial growth and also helps to them who do not venture to create and manage enterprises but want to become investor. On the other hand Security market also helps to entrepreneurs in setting up their projects which are beyond their financial capacity. Thus SEBI act as a link between economic deficit and also the economic surplus units.

SEBI formulated the (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulation which is also known as PFUTP Regulation. [3] These Regulation made for the identifying, investigating, inspecting the various forms of market manipulation. Practices like circular trading, pump and dump scheme, price changing scheme, false statement and dissemination falls within their scope. More important these scheme, helps the offering regulatory and flexibility to check this kind of scheme in the market. It also checks the digital misinformation and campaign regulated by the fraud people, algorithmic manipulation.

Thus the legal and statutory framework of SEBI plays a dual character in the market is it at once robust, empowering the regulator to respond actively towards the manipulation and yet accountable and it also checks the subject of judicial control shows the at it lies at the heart of the financial market Regulation.

1.1 IMPORTANCE OF CORPORATE GOVERNANCE IN INDIA

Corporate governance is helps to develop a climate of trust and transparency in the business environment. It helps to develop a confidence between the investors, they need the assurance that the companies they are going to invest in are being run with integrity, accountability and also compliance with the law. [4] Good governance practices help to enhanced the life of a company

and also contribute to its long-term success. They also helps to prevent corporate scandals, financial fraud, any mismanagement done by companies which can cause the significant harm to the economy and also destroy the investor trust.

India's corporate governance framework has evolved over the years, after the many scams happens in India such as Harshad Mehta scam (1992) and the Satyam scandal (2009) [5] This events highlighted the lacks of corporate governance and also questioned on the regulation part of corporate governance to ensures the greater transparency, accountability, and protection for investors.[6]

1.2 SEBI ROLE IN CORPORATE GOVERNANCE

SEBI involvement in corporate governance is very vast and it involves the settings regulation, principle, guidelines and many rules to ensures, that companies adopt good governance practices. SEBI focused to ensures the investor's right, interest and protected in the form of it adhere with the fair and ethical business practices.[7] In March 2025 SEBI came up with the multiple reforms aimed to making India's stock market more transparent, easy, and investor friendly. SEBI introduced the tighter conditions for the listed companies to disclose the accurate information to the Public. These step highlights the SEBI dual role in the market, maintaining strict supervision to protect investors and ensure market integrity.[8]

1.3 SEBI PLAYS A SIGNIFICANT ROLE IN CORPORATE GOVERNANCE IN INDIA IN THE FOLLOWING WAYS:

1. Regulation for listed companies:

One of the best contribution by the SEBI in corporate governance is through the regulation of listed companies. The SEBI (Listing obligation and Disclosure Requirements) Regulation 2015 (LODR) act as a comprehensive guidelines for the governance of listed companies in India.

Some important key aspects of SEBI's LODR regulation include:-

Board framework and Independent director: SEBI mandates that certain companies only based on their size and business they have must include the specified number of independent director in their board composition. Independent director helps to bring the transferability in board decisions.

Audit committee: SEBI mandates the every listed company must have their own audit committee with non- executive director with at least one independent director. The audit committee check the all financial report of the company and also participate in the Annual General meeting (AGM) of the Company.[9]

Disclosure Requirement: The listed companies needs to give the all information accurately and timely to shareholders, related to the financial performance, executive compensation, related party transaction and any other decisions that may affect shareholders.

Annual General meeting (AGM) and Shareholder Right: SEBI also present many rules and regulation to ensure that shareholder's rights are protected, including voting rights, full right to participate in AGM and receiving the notice for the attend the meeting.

2. Protection of minority Shareholders

In many corporate companies and business environment many shareholders shows their extent authority on the minority shareholder. SEBI ensures and keep checks that minority shareholders are not oppressed by the requiring companies to disclose any action that may impact their rights as the shareholder.

SEBI Proposed the many regulation to protect the right of minority shareholder:

Mandatory delist the Company: When a company wants to delist its share it must offers the exist opportunity to minority shareholders to not prevent them from the being forced out and not neglecting in the companies without giving compensation.

Takeover Regulation: SEBI enforce the regulation related to any kind of takeover that require a company's acquirer market a public offer for the general public in the market itself also for the minority Shareholders and when they acquire stake in the companies that SEBI ensuring and treated fairly during the merger and acquisition time.

3. Enhancing Transparency:

The main and first aspect of corporate governance is ensuring that the financial related issues and performing including the internal working must be transparent. SEBI compulsory mandates that the clear disclosure practices to helps the investors for the making their decisions.

Important disclosure that SEBI requires to include:

Announce their financial Results Quarterly or Annual: Companies have to disclose their financial results either Quarterly or annual basis to ensuring the shareholders and investors can know their position in the company.

Any company related transaction: Any transaction done by the company related to any matter it must be disclosed in the public.

Non financial Information: SEBI also provide encourage to the company to disclosed the CSR or any activities which is related to the public like environmental sustainability and the company's long term strategy.

1.4 RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND STOCK MARKET DEVELOPMENT

Capital formation of companies is mainly started through the Stock market. Many steady capital also provide the efficient capital raising opportunities for Public and Corporation it also helps in the manage to provide a domestic savings in real statement savings.[10] Developing equity culture and attract more investors in the market to park their savings in the Stock market development in India. This is because stock market development only can be happens through the Corporate Governance, which is provides the rights to investor and including grievance redressal mechanism.[11] Generally Investment in securities or rather the stock market is considered as the best investment option because Investment can be easily changed in the money trough the stock market. As a market becomes the more transparent through the help of corporate governance, trust in the market also increases. It is to acknowledged that legislative reformation through the companies act 2013 has been significant in promoting the better corporate governance [12]

1.5 SEBI REGULATORY FRAMEWORK FOR CORPORATE GOVERNANCE

1. Clause 49 of Listing Agreement (2000): It introduced the some changes in companies like company must have Board composition, independent directors, audit committee and disclosures, which is revised in the 2003 and 2013 to align with the companies Act 2013.
2. Insider Trading Regulations (2015): It strengthened the rules to prevent the unfair Trading and practices with the penalties for non- compliance.
3. Business Responsibility and Sustainability Report (BRSR 2021) : This scheme mandated the ESG disclosures for the top 1000 listed companies to promote the sustainable growth in the market.
4. Board Composition Norms (2023) : It demands the mandatory separation of CEO and chairman roles and it increased the board diversity

1.6 IMPLEMENTATION OF KOTAK COMMITTEE RECOMMENDATION

This committee is constituted by the Ministry of corporate affairs in India in 2015. This committee is headed by the well known Indian banker and entrepreneur and his tasked is providing the comprehensive analysis of the current state of corporate governance in India and making a recommendation for the improvement. The report on corporate governance was released in the year 2016 by the ministry of corporate affairs. The committee was comprised with many people like corporate governance, including senior executives, regulators and academics and civil society representatives .[13]

Kotak committee Report made several important Recommendation for improving the corporate governance in India

- i. It improves the independence and effectiveness of board of directors.
- ii. It enhanced the rights and protection of minority of shareholders.
- iii. It promotes transparency and accountability in corporate reporting

The report's recommendation influence and it helped to promote best practices in corporate governance in India. This report is continue and valid till today and its recommendation continue to inform the development of corporate governance in India. [14]

1.6 INVESTIGATIVE POWERS AND ADJUDICATORY MECHANISM OF SEBI

SEBI main function regulatory framework lies in its power to investigate and adjudicate the market offences and also focused on enabling the regulator to respond effectively to both conventional and emerging threats to market integrity. Section 11C of the SEBI act 1992 gives the investigation power. [15] This section came into the force when the SEBI feels there is something which is actually wrong and after that they start their investigation. It can the call people for investigation, ask for documents and also checks their records that it thinks it is important for the case. These powers are resembles to civil court under the Code of Civil Procedure [16] Which means SEBI act as a mini court during the investigation.

Also today's world market uses the all tricks to fraud with people through technical like using the algorithm or fake data. SEBI doesn't do all this alone. It brings the expert like forensic auditors, tech specialists, or the people who understands the how the trading works so that they can go deeper for the solving the issues.[17]

After SEBI finishes its investigation process, the next process is deciding the whether the company or person actually broke the rules this is called the adjudication. There is legal statutory provision and rules available under the SEBI (Procedure for Holding Inquiry and Imposing penalties by Adjudicating officer) Rules 1995. [18] These rules mainly talks about the how the whole process should go. SEBI also chooses the an Adjudicating officer (AO) who checks the all evidence , holds hearing and imposed penalty on parties if needed. It is a kind of court process where the both parties have equal rights to present the all document, getting a equal chance to speak and proper reasons given in the final decisions.

But there is a problem which is faced by the SEBI. Since SEBI doing the both the roles investigating and Judging , some people thinks it bit of conflict? For example is it possible same group fairly decide something they already looked into ? Some Critics said it is biased and not in transparent way. Court mostly support the SEBI's way of doing things, since it is a special agency with expertise. But they also said SEBI has to make sure things fair and transparent so people can trust the process which is comes under the corporate ethics. SEBI needs to be careful when it uses its power , it must give the chance to other parties to questioned on the fair basis. [19]

SEBI also includes the Settlement proceedings under the (Settlement Proceedings) Regulation 2018, mostly recently added in the August 2023. These regulation also entitles to allow the individuals and entities accused of violations can do the settlement before the Court. The settlement mechanism designed to streamline the dissolution process and it also reduce the burden. The 2023 amendment came up with the stricter timelines, enhanced disclosure requirements and eligibility criteria thereby seeking to improve both efficiency and transparency process.

1.7 WHITE – COLLAR CRIMES IN THE SECURITY MARKET

Fraud considered as a white-collar crime in the securities market. Basically, it involves the individual organization that engages in a way that they get the money financially. It is different from the blue-collar crime which is violent or physically harmful in nature. White collar crimes are not violent but equally damaging in terms of their impact on investors, business, economy, which is present in the market. It encompasses all kinds of fraudulent activities involving the Security. Those people who are lacking in financial expertise only ones who can commit these crimes. While there is no universal definition of fraud, generally it is considered through the misrepresentation or concealment of material facts with the intent to deceive others for personal gain. Securities fraud, it refers to any fraudulent activity that changes the securities market, which is done by misleading the investors and distorting the true value of securities. These fraudulent activities can be done in many forms, such as falsifying true statements, insider trading, or engaging in market schemes. In the Securities fraud tribunals and court are act as the adjudicating court. The Securities Appellate Tribunal (SAT) serves as the appellate body for decisions which is made by the SEBI, providing an additional layer of accountability and legal recourse in the market.

1.8 CRITICISMS AND CHALLENGES

SEBI makes many efforts to strengthen the corporate governance face also checks the hurdles that determine its regulatory efficacy. One of the primary gaps they face is the enforcement gap, mainly in detecting and preventing insider trading and market-related manipulation. [20] In the NSE co- location scam of 2018, selected brokers unnecessarily gained unfair trading advantages, and also exposed the deficiencies in SEBI's real-time surveillance system. In other ways, the subsequent regulatory tightening of the pump and dump scheme in the small stock market, and it shows the SEBI regulatory mechanism towards the market. [21] Many high-profile corporate scandals also highlighted the SEBI's reactive approach to fraud detection. The Satyam Scandal Case (2009) also highlighted the falsified accounts, and the IL&FS crisis (2018) also marked the massive debt defaults, and also revealed the SEBI's inability to check major governance failures. While SEBI responded with stricter audit and disclosure, critics also argue that these checks address the root cause of all the problems. Additionally, SEBI's enforcement often faces delays due to prolonged legal proceedings, which affects the deterrent effect. For instance, insider trading cases generally take years to resolve the issues.

Another major significant challenge is the allegation of conflict of interest within the SEBI. In the year 2024 the SEBI chairperson had ties with the offshore entities and it also raises the question about regulator internal governance and impartiality. These type of challenges helps to SEBI to grow strong and it also enhances the technological capabilities, expands it workforce and also strengthen the internal governance and maintain credibility and effectiveness in regulating India's corporate sector.

CONCLUSION

The important role played by the Securities and Exchange Board of India in consolidating corporate governance is to establish a robust regulatory framework that enhances transparency, accountability, and investor protection. Important initiatives, for example, Clause 49, insider trading regulations, and the BRSR framework, helped Indian firms with global governance standards, increasing board independence and sustainable practices as aligned by SEBI. Here is the list showing a high compliance rate among BSE 500 companies, 85% by 2023, and it decreases by 30% in investor complaints from 2015 to 2023, which reflects SEBI's positive impact on company behavior and market trust. These improvements helped make India a pleasing destination for global investors, who especially focus on ESG-based investments. It has also been seen in a decline in SEBI's effectiveness through some critical challenges like a gap in enforcement, resource constraints, and high-profile governance failures. enforcement gaps, resource constraints, and high-profile governance failure. Scandals like Satyam and IL&FS exposed their gaps, which also include issues like insider trading and market manipulation. It showed the ineffectiveness of the current surveillance and enforcement mechanisms of SEBI. The allegations against the chairperson in 2024 also widened the accountability to maintain the regulatory credibility. It shows the need for internal accountability. These mistakes by SEBI tell that there is much improvement needed in the compliance part and the regulatory framework.

RECOMMENDATION

SEBI has tried to enhance the roles for strengthening the corporate governance; SEBI should also adopt the multifaceted approach for addressing the enforcement, technology, and internal governance. Firstly, SEBI must invest in AI-driven surveillance tools to detect insider trading and market manipulation in the present time. This technology can help check vast databases, identify suspicious trading partners and organizations, flag anomalies, and also enable proactive intervention. For example, machine learning modules can help the SEBI in the future. It enhances the SEBI's ability to monitor small-cap stocks, which are very actively participated in the pump-and-dump schemes. SEBI needs to expand its workforce and provide specialized training in forensic accounting and data analytics. With a smaller number of employees overseeing the millions of transactions, SEBI's capacity is stretched thin, particularly for the mid-cap and small-cap firms. Recruiting additional staff in the SEBI improves oversight and also reduces the response time for investigations. There is a need to conduct the training program, which should focus on the emerging trends, ESG compliance, and cyber-enabled financial crimes.

SEBI should strengthen the penalties for the governance violation to deter them. Current fines and bans are often insufficient to create a deterrent in the market. There is a need to introduce the tiered penalties, which are based upon the severity of the violation. Additionally, SEBI should streamline the very vast legal process, which is ensuring timely justice.

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